



Munich Personal RePEc Archive

# State Intervention and Labour Market in India: Issues and Options

Majumder, Rajarshi and Mukherjee, Dipa  
Dept of Economics, Narasinha Dutt College

2008

Online at <http://mpa.ub.uni-muenchen.de/12409/>  
MPRA Paper No. 12409, posted 15. January 2009 / 08:04

## **STATE INTERVENTION AND LABOUR MARKET IN INDIA: ISSUES AND OPTIONS**

### ***Abstract***

Historically, interaction between State and Labour originated to ensure that wavering commitment of workers migrating from the traditional agricultural sector does not create recurring shortages of labour and irregular production in modern sectors. As transition of labourers became more permanent and regular, employers began to exploit the workers. Therefore, while initial laws were pro-employer, laws in the later periods were enacted to prevent inhuman exploitation of the workers and offer them a dignified living. Though the objectives of State intervention into such matters are justified and commendable, their effect has not always been commensurate to their aims. In this paper we look at State policies towards Labour in India and the major impact of such policies on the labour market and the economy. Labour policies in India are directed towards ensuring Employment security and providing Minimum wages & benefits. However, these laws serve the organised workers primarily who enjoy both employment and income security. Outside we have a large mass of workers without any job security, wages inadequate to keep them above poverty line, and lack of job security preventing them from organising themselves and demand decent income security. Moreover, development of labour market in India has been stifled and institutions needed to ensure welfare of the workers have not come up. Surplus labour has accumulated in the public sector without proportional rise in output and financial burden on the State in terms of wage payments have zoomed. Such huge fiscal burden has prevented the State to take up rural development and employment creation programmes. As the relative price of labour compared to capital went on increasing, private employers have substituted labour by capital to enhance labour productivity, adversely affecting employment prospects in the long run. Innovative entrepreneurs also arrange labour supply through agencies, hire casual workers, set up ancillary units and subcontracts work. Consequently, employment in the unorganised sector has grown tremendously, most of which are distress units. Elasticity of employment with respect to output has consistently declined. Jobs have become less regular there is marked casualisation of workforce. Wage-gap between the organised and unorganised sector has been increasing, while the share of organised sector itself is decreasing; both open unemployment and underemployment are increasing, widening further the gap between the small mass of protected labour and the remaining millions of vulnerable workers and job-seekers. Legislations have thus institutionalised, propagated, consolidated and perpetuated dualism in the labour market. While labour market reforms are necessary, allowing flexibility in the labour market should be implemented in a careful and phased manner. Linking retrenchment with Area Regeneration Programmes; Upgradation of employability quotient through training in *in-demand* skills; Allowing employers to transfer workers between units; Supporting small entrepreneurs through easy credit, technical consultancy, and cooperative formation, would help improve the conditions of workers. The State should understand that reforming labour legislations in a piecemeal manner would only deteriorate the already vulnerable position of workers countrywide. While balancing the two segments and breaking the dualistic character is important, one should be careful to avoid deteriorating conditions in both the sectors in the name of uniformity.